

Home Prices Survive Slump in Economy

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Whatever the doomsayers may say about the weakening economy and the inevitable dire effect on the value of your home, you should know this: The only federal agency that tracks the market values of homes nationwide has just documented a very slight softening in the rate of appreciation of American housing values.

But the annualized rate of appreciation for the average home during the first half of 2001 was still a hefty 7.8 percent. While that's down from the torrid annual rate of 9.5 percent in 2000 -- the highest recorded in the last two decades -- it's still more than twice the rate of inflation.

With prices rising in the economy overall by about 3.7 percent excluding shelter-related costs, housing-value growth at an annualized rate of 7.8 percent in the first half of 2001 shows that American consumers "choose to [invest in] housing over and above many other goods and investment vehicles," according to the Office of Federal Housing Enterprise Oversight. That agency monitors the value changes in a database of more than 14 million home-sale and refinancing transactions.

The agency's latest study, covering value changes through June of this year, found that:

- In the Washington area, prices rose 2.5 percent in the quarter, 10.7 percent year-over-year and 30.2 percent over five years. Nationally, the District had the steepest one-year price appreciation in the nation, 14.4 percent; prices rose 4.1 percent in the quarter and 49.9 percent over five years. In Virginia, prices increased 2 percent in the quarter, 9.3 percent over a year and 32.8 percent over five years. In Maryland, prices rose 1.5 percent in the quarter, 7.8 percent over a year and 23.2 percent over five years.
- Appreciation in home prices is still at 10 percent or more on an annualized basis in 49 of the 180 largest metropolitan markets. In many of the fastest-appreciating markets, average gains are well over 1 percent per month.
- The average house nationwide has gained 34.8 percent in resale value since 1996. That means a condo purchased five years ago for \$150,000 would sell for about \$202,500 today. A house bought for \$250,000 in 1996 is probably worth about \$337,500.
- Five-year gains in dozens of markets are far beyond the national average of 34.8 percent. For instance, the value of the average home in San Jose has more than doubled in the last five years.

- Long-term gains from buying a house continue to be impressive. In Massachusetts, the average house has more than quadrupled in resale value since 1980, tops in the country. During the same period, homes jumped in value by 283 percent in the state of New York, and by 200 percent or more in California, Connecticut, Colorado, Minnesota, Rhode Island and New Jersey, among others.
- Smaller real estate markets are racking up gains that are just as impressive as in some large markets. For instance, real estate in Naples, Fla., already a high-cost resort and retirement area, rose an average 12.2 percent in the past year. New London, Conn., where local government and industry leaders are pushing hard to reinvigorate a stagnant economy, had an average 10.1 percent gain in home values.
- Despite signs of a cooling trend in hot markets where local economic conditions have worsened -- San Francisco, Silicon Valley and Austin, for instance -- home prices did not decline in the second quarter. Year-over-year gains remain in double digits.
- Even at the low end of the appreciation scale, the latest study found no market in negative territory. During the early 1990s, by contrast, numerous markets were deflating in value, including swaths of Southern California.

What's keeping the value of homes so high, particularly at a time when there seems to be so much bleak news about the economy?

Two factors are particularly important: Low mortgage rates and continued healthy income gains for households. By now every homeowner in the country has heard that "it's time to refinance -- again." And with rates in the 6.5 percent to 6.75 percent range last week, it just may be.

But those same low rates are also enticing hundreds of thousands of people to either buy their first home -- pushing up demand and prices at the low end of the homeownership food chain -- or to sell the house they've got and buy a new, costlier one.

Household income continues to grow nationwide faster than inflation. And unemployment is steady at 4.5 percent -- a rate that for much of the last two decades would have made even the most dour economists smile.

So take from the latest federal housing appreciation numbers the positive message they convey: Your biggest asset continues to outperform the stock market, inflation, money market funds and bonds. And that should be very good for your personal bottom line.

(To see the latest housing price study online, go to www.ofheo.gov.)

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